Supreme Court, U.S.
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In The

Supreme Court of the United States

October Term, 1995

SEA GULL LIGHTING, INC.,

Petitioner,

v.

HYDRAMATIC PACKING CO., INC.,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED FOR REVIEW

In this case of first impression, whether a State's commercial law of indemnity conflicts with and is preempted by federal law, where the State law would shift liability for patent infringement damages from a party with notice of infringement to a party without notice of infringement, notwithstanding that federal law explicitly exempts from damages the party without notice of infringement.

CORPORATE DISCLOSURE UNDER RULE 29.6

Sea Gull Lighting, Inc. owns one subsidiary, Philadelphia Glass Bending, Inc., Philadelphia, PA, which manufactures bent glass products. Sea Gull Lighting, Inc. also owns fifty percent of Angelo Lighting Company, Philadelphia, PA, which sells lighting fixtures.

Sea Gull Lighting, Inc. has no parent company. However, Jordan Company, 315 Park Avenue South, New York, NY 10010 owns a minority position in Sea Gull Lighting, Inc. There are no subsidiaries or affiliates of Sea Gull Lighting, Inc. that have issued shares to the public.

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The opinion of the Court of Appeals is reported at 83 F.3d 1390 (Fed. Cir. 1996), and is reproduced beginning at Appendix page A1. The opinion of the District Court is reported at 36 U.S.P.Q.2d 1199 (E.D. Pa. 1995), and is reproduced beginning at Appendix page A11.

JURISDICTION

The judgment of the Court of Appeals was entered May 9, 1996, and the mandate issued May 30, 1996. The jurisdiction of this Court is based on 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED

Constitution of the United States, Article I, Section 8, Clause 8:

> The Congress shall have Power . . . to promote the Progress of Science and the useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries; . . . .

Constitution of the United States, Article VI, Clause 2:

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby,

any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Title 35 United States Code § 287(a):

> Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

Title 13 Pennsylvania Consolidated Statutes § 2312(c):

> Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.

Section 2-312(3) Uniform Commercial Code, Official Text:

> Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.

STATEMENT OF THE CASE

This case began as an infringement action brought by Craig H. Cover ("Cover") for infringement of his U.S. Patent 4,605,992 ("the Cover patent"), which deals with multilayered laminated insulation products for lighting fixtures. Cover alleged that Sea Gull Lighting, Inc. ("Sea Gull Lighting") directly infringed the Cover patent by selling lighting fixtures containing multilayered insulation products, and that Hydramatic Packing Co., Inc. ("Hydramatic") contributorily infringed the Cover patent by selling the multilayered insulation products to Sea Gull Lighting.

Both Sea Gull Lighting and Hydramatic answered the Complaint and denied infringement, and filed cross-claims under State law against each other. Each asserted that the other was responsible for any damages Cover was entitled to.

Hydramatic fabricates insulation products, and over the years had produced dozens of insulation parts for Sea

Gull Lighting. In the normal course of its business, Hydramatic would call on various lighting manufacturers, including Sea Gull Lighting, and ask for work. Hydramatic salesmen periodically called on Sea Gull Lighting to solicit business.

Hydramatic made the insulation products alleged to infringe the Cover patent according to drawings furnished by Sea Gull Lighting. Sea Gull Lighting began ordering allegedly infringing parts from Hydramatic in July 1988. At that time, Sea Gull Lighting purchased only one allegedly infringing product, designated as part number 6254, from Hydramatic. Sea Gull Lighting ordered a second product alleged to infringe the Cover patent, part number 6255, from Hydramatic beginning in August 1990.

Two years before Sea Gull Lighting ordered the first part alleged to infringe, Hydramatic had received a letter from Cover dated June 12, 1986, informing Hydramatic of the imminent allowance of the Cover patent. The following year, still prior to any orders from Sea Gull Lighting for alleged infringing parts, Hydramatic received two more letters from Cover identifying the Cover patent.

On June 5, 1989, after Hydramatic had supplied parts number 6254 to Sea Gull Lighting but before it began supplying parts number 6255, Hydramatic received a letter from Cover's patent attorney, accusing Hydramatic of infringing the Cover patent and demanding that Hydramatic cease and desist from further production of the allegedly infringing insulation. The letter in no uncertain terms accused Hydramatic of infringing the Cover patent. Hydramatic neither responded to the letter from

Cover's lawyer, nor informed Sea Gull Lighting that Hydramatic had received the letter.

Hydramatic received a follow-up letter from Cover on October 9, 1989, which referred to the June 1989 letter and repeated the demand that Hydramatic cease infringing the Cover patent. Hydramatic ignored this follow-up letter as well.

Hydramatic never informed Sea Gull Lighting of Cover's allegations of infringement, and never revealed the existence of these written notices of infringement until ***after*** the Complaint was filed, when the letters were disclosed to Sea Gull Lighting by Hydramatic's counsel. Nevertheless, after June 5, 1989, Hydramatic, through its salesman Glen Fortunato, continued to call on Sea Gull Lighting and solicit orders of multilayer insulation products. Even though Hydramatic was aware of the Cover patent long before Sea Gull Lighting began to order the allegedly infringing parts from Hydramatic, Hydramatic did not seek or obtain an opinion from counsel regarding possible infringement of the Cover patent. Furthermore, Hydramatic did not investigate the possible infringement of the Cover patent, prior to manufacturing the allegedly infringing parts for Sea Gull Lighting.

Sea Gull Lighting's purchases of the allegedly infringing insulation products from Hydramatic ceased in late 1993, prior to the filing of the Complaint.[1]

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[1] However, Sea Gull Lighting was selling lighting fixtures including the allegedly infringing insulation products at the time the Complaint was filed and thereafter. Sea Gull Lighting was thus potentially liable for post-filing damages.

At no time prior to the filing of the Complaint did Sea Gull Lighting receive a letter from either Cover or Cover's lawyer accusing Sea Gull Lighting of infringement or demanding that Sea Gull Lighting cease any of its activities. Sea Gull Lighting did receive a letter dated October 9, 1989 from Cover, which requested Sea Gull Lighting to provide records of purchases of certain parts from Sea Gull Lighting's suppliers of insulation, and which the district court found was not notice of infringement. Cover not only never accused Sea Gull Lighting of infringement, he did not contact Sea Gull Lighting after October 9, 1989, until the Complaint was filed. Thus, Sea Gull Lighting did not have notice of the alleged infringement until the Complaint was filed, whereas Hydramatic received actual notice of infringement more than four years earlier and never informed Sea Gull Lighting of that notice.

Cover's failure to notify Sea Gull Lighting of infringement is of pivotal significance under federal patent law. Cover had earlier licensed another insulation fabricator, Pacor Inc., under the patent.[2] Pacor sold the patented insulation to Sea Gull Lighting and others without marking it with the patent number pursuant to 35 U.S.C. § 287(a). This failure to mark prevented Cover from seeking damages from Sea Gull Lighting for acts of alleged infringement committed prior to the filing of the Complaint. It did not prevent Cover from recovering prefiling damages against Hydramatic, however, since

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[2] At all relevant times, Pacor was the only entity licensed by Cover that was making and selling the patented insulation.

Hydramatic had earlier received actual notice of infringement from Cover.

Sea Gull Lighting settled any claims to post-filing damages with Cover on June 30, 1994, and Sea Gull Lighting and Cover stipulated to a dismissal of all claims *inter se*. Hydramatic was not a party to the settlement.

Shortly thereafter, at Hydramatic's request, the district court stayed proceedings in order to enable Hydramatic to have the Cover patent reexamined by the U.S. Patent and Trademark Office, to see if the claims of the Cover patent would be declared unpatentable. The reexamination concluded with the Patent and Trademark Office declaring all of the claims of the Cover patent patentable, with no changes having been made to any of the claims. Hydramatic finally settled with Cover on April 24, 1995, one week before the scheduled start of trial. Thus, the only claims which remained to be resolved by the district court were the cross-claims between Sea Gull Lighting and Hydramatic.

At the suggestion of the district court, Sea Gull Lighting and Hydramatic stipulated to the facts on which the district court should decide the cross-claims. Following submission of the case on the stipulated facts and an oral summation by counsel, the district court found in favor of Sea Gull Lighting on Hydramatic's cross-claim. The district court held that because of Cover's failure to provide notice, Sea Gull Lighting was not liable for prefiling damages by virtue of 35 U.S.C. § 287(a), and that State commercial law (13 Pa. Cons. Stat. Ann. § 2312(c) (1984)) could not be used to impose Hydramatic's liability on Sea

Gull Lighting, because to do so conflicted with, and was preempted by, federal patent law.[3]

Hydramatic appealed the district court's judgment to the Court of Appeals for the Federal Circuit. The Federal Circuit, in what it recognized as a case of first impression, determined that the patent laws were "irrelevant" because Sea Gull Lighting and Hydramatic had each settled with the patentee. Having decided that the patent laws "left the picture," the Federal Circuit was able to conclude that there was no conflict between the patent laws and State commercial law, and reversed and remanded the case for further proceedings consistent with its decision.

Sea Gull Lighting has secured a stay of further proceedings in the district court pending review of the Federal Circuit's decision by this Court.

BASIS FOR JURISDICTION IN THE DISTRICT COURT

The District Court's jurisdiction in this case is based on 28 U.S.C. §§ 1331, 1332(a), and 1338.

[3] Because it premised its judgment on grounds of federal preemption, the district court did not reach Sea Gull Lighting's defenses to Hydramatic's cross-claim under state commercial law.

ARGUMENT

Every day, businesses buy and sell thousands of products. Many of the products bought and sold by businesses are covered by United States patents. Often, those patents are owned by someone other than the buyer or the seller, and either the buyer or the seller, or both, are sued for patent infringement.

In nearly every jurisdiction,[4] the purchase and sale of goods are subject to a State's adopted version of the Uniform Commercial Code ("the UCC", or "the Code"). The UCC allocates liability for damages between a buyer and a seller where the goods are subject to a rightful claim of infringement.[5] If the seller is a merchant regularly dealing in goods of the kind, the seller must indemnify the buyer for any infringement. If the buyer requires the seller to provide the goods to the buyer's specifications, then it is the buyer who must hold the seller harmless. UCC § 2-312(3) (1995).[6]

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[4] Only Alaska and Louisiana have not adopted the UCC.

[5] Although this case arose from allegations of patent infringement, the U.C.C. provision contemplates trademark infringement as well. Moreover, there is no reason why § 2-312(3) would not also apply in cases of copyright infringement. The issue in this case thus has applicability to those areas of the law, and is not limited to cases of patent infringement.

[6] This provision of the UCC was enacted in Pennsylvania as 13 Pa. Conn. Stat. Ann. § 2312(c). For purposes of this petition, the Pennsylvania provision is the same as the uniform code version. Because the issue involved in this case is of general applicability, the Code version will be cited to in this petition.

The UCC provision makes commercial sense, and normally does not give rise to much difficulty in application. Lurking within UCC § 2-312(3), however, is a conflict between it and the federal patent laws which was not addressed, and most likely not even anticipated, by the drafters of the Code. The federal patent statute, 35 U.S.C. §§ 1, *et seq.*, contains a provision that a patentee shall not recover damages unless products covered by the patent are marked with the patent number or, if not so marked, the patentee has notified the infringer of the infringement and the infringement continued thereafter. 35 U.S.C. § 287(a) (1994).[7]

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[7] Section 287(a) requires that a patentee give notice of infringement, either actual notice or constructive notice by marking patented articles with the patent number. The requirement of notice of infringement is firmly grounded in important public policy considerations, to ensure that the public at large is informed as to the patent status of articles in commerce, and to prevent innocent infringement. *See, Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 161-62 (1989); *Wine Ry. Appliance Co. v. Enterprise Ry. Equip. Co.*, 297 U.S. 387, 394 (1936); *American Medical Sys. v. Medical Engineering Corp.*, 6 F.3d 1523, 1538 (Fed. Cir. 1993) ("The purpose of the constructive notice provision of § 287 is 'to give patentees the proper incentive to mark their products and thus place the world on notice of the existence of the patent.' ").

The incentive for carrying out the policies behind § 287(a) is the penalty to the patentee if he does not mark – the inability to recover damages. This is reinforced by requiring a strict standard for actual notice of infringement. A lax notice standard decreases the incentive to mark, and would eliminate marking in many, if not most, industries. A lax notice standard would permit a patentee to selectively choose when and whom to notify of its patent, with little or no risk to himself. Notice of infringement is not a mere technicality, but a prerequisite to the

There are four situations where these different statutory provisions come into play, and in three of them no conflict arises. In the first, neither the buyer nor the seller have notice of infringement (either by marking or notification from the patentee) until the complaint is filed.[8] In that situation, neither party is liable to the patentee for damages for infringements which occurred prior to the complaint, and there is no liability to be shifted under UCC § 2-312(3).

In the second situation, both parties have notice of the infringement (either by marking, notification from the patentee, or by the filing of a complaint for patent infringement). In that situation, neither party can avail itself of the protection offered by 35 U.S.C. § 287(a). Both parties are liable to the patentee, and the provisions of UCC § 2-312(3) can be applied to shift the liability to the appropriate party as the Code intended.

In the third situation, the party who would be liable under the provisions of UCC § 2-312(3) has notice of the infringement (again, either by marking, notification from the patentee, or by the filing of a complaint for patent infringement), although the other party does not. In the third situation, there is no conflict between the Code and the patent statute, since the party with notice is liable to the patentee no matter which provision is applied.

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recovery of damages, and non-liability for damages prior to notice is an absolute benefit conferred by the patent statute.

[8] Filing a complaint for patent infringement constitutes notice of the infringement. 35 USC § 287(a).

It is in the fourth situation, which is the situation in this case, where a conflict between the Code and 35 U.S.C. § 287(a) arises. In the fourth situation, the party seeking indemnity has received notice of the infringement, but the party to whom liability would to be shifted by the Code does not have such notice. In this situation, 35 U.S.C. § 287(a) would preclude the imposition of any damages on the latter party. In contrast, UCC § 2-312(3) would impose on the latter party all damages. In this situation, the federal statute and the UCC cannot be harmonized. Either the latter party is not liable for damages, or it is. There is no way to apply both statutory provisions without reaching conflicting results.

The Federal Circuit attempted to avoid dealing with the conflict by theorizing that the patent laws, and their effect, vanished once the patent infringement issues were settled. This permitted the Federal Circuit to conclude that there was no conflict.

The Federal Circuit recognized that this case did not involve explicit preemption of the UCC by the patent laws, and that it did not involve "field preemption," since the patent laws and the UCC normally address different fields of law. Where the Federal Circuit erred was in holding that the UCC did not stand as an obstacle to the accomplishment and execution of the patent laws. The Federal Circuit could only have reached such a conclusion by positing that the patent laws "left the picture" along with the patentee, and were therefore "irrelevant." This conclusion is not only astonishing, it is wrong. Unless there is a rightful claim of infringement, which must be determined under the patent laws, there can be no basis under the UCC to find Sea Gull Lighting liable to

Hydramatic. The Federal Circuit's decision, by regarding the patent laws as "irrelevant," eviscerates the protections granted by 35 U.S.C. § 287(a) to an accused infringer without notice.

Giving effect to § 2-312(3) over § 287(a) completely abrogates the benefits provided to Sea Gull Lighting by 35 U.S.C. § 287(a). Absent patent marking, the public is granted a right, under § 287(a), to actual notice of infringement before incurring liability for damages. *Amsted Indus. v. Buckeye Steel Castings*, 24 F.3d 178, 186 (Fed. Cir. 1994). Nothing that a State can do may be permitted to destroy a federal right which is to be vindicated. *Burks v. Lasker*, 441 U.S. 471, 480 (1979) (Federal courts must be "ever vigilant" to insure that application of State law poses no significant threat to any identifiable federal policy or interest).

This case is in the same vein as the *Sears/Compco* and *Bonito Boats* line of cases. This is not a case where the UCC supplements federal law or deals with an area not touched on by federal law. On the contrary, giving effect to the UCC directly conflicts with federal law. Applying § 2-312(3) as the Federal Circuit has done in this case sets 35 U.S.C. § 287(a) "at naught." *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 (1964), *reh'g denied*, 376 U.S. 973 (1964). By enforcing § 2-312(3) as the Federal Circuit has done here, where patented articles were sold without proper patent marking *and* where proper notice of infringement was not provided, Sea Gull Lighting is held liable for damages for patent infringement under State

law even though it is exempt from damages under federal law.[9]

This "backdoor" secondary liability cannot be reconciled with the policy of the federal patent statute mandating that notice of infringement must be given in order for liability for damages to attach. The UCC cannot strip parties of their rights under a federal statute. As the Supreme Court stated in *Sears*:

> Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.

Sears, 376 U.S. at 231.

The decision of the Federal Circuit, unless reversed by this Court, is binding on all future cases. The Federal Circuit is the court of last resort in patent cases, barring the intervention of this Court. This means there will never be a conflict in the circuits. In addition, the Federal Circuit requires its panels to follow the decisions of an earlier panel. *Vas-Cath Inc. v. Mahurkar*, 935 F.2d 1555, 1563 (Fed. Cir. 1991). With the only possibility of the Federal Circuit overruling the decision below being an *en banc* decision, it will remain the law governing the interplay between the UCC and the patent laws.

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[9] The federal patent laws must define not only what is protected, but also what is free for all to use. *Bonito Boats, Inc., v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

The Federal Circuit rarely grants *en banc* review, and virtually never when a prior decision was by a unanimous panel, as in this case. In an address on May 23, 1996, to the Fourteenth Annual Judicial Conference of the Court of Appeals for the Federal Circuit, Chief Judge Glenn L. Archer stated that in 1995, the Federal Circuit granted only two out of 183 requests for panel rehearings and not a single request out of 124 requests for *en banc* rehearings. After presenting these figures, Chief Judge Archer "reminded practitioners that for an *en banc* rehearing to be granted, there must be a demonstrated conflict with Supreme Court or Federal Circuit precedent, or the case must be 'exceptional.' The required review of these petitions is a waste of the judges' time, he complained." *Federal Circuit Holds Fourteenth Annual Judicial Conference*, BNA's Pat. Trademark & Copyright J., June 27, 1996, at 258.

In view of the Federal Circuit's policy of never overturning a prior panel opinion without an *en banc* hearing, the Federal Circuit's decision in this case is frozen forever unless it is reversed by this Court.

This Court must correct the Federal Circuit's decision because it sets bad policy.

The facts of this case, even though not previously dealt with by the courts, are likely to crop up again and again. It is not at all farfetched to expect that one party to a sale of goods, but not the other, may receive notice of infringement. If, as in this case, the seller has notice of the infringement, the seller has nothing to lose by concealing the notice of infringement from the buyer and continuing to deal in infringing goods with the buyer. In fact, the

party with notice of the infringement has everything to gain. All the while it keeps the notice of infringement concealed, the party with notice continues to deal in, and profit from, the infringing goods. It can continue to deal in infringing goods until the patentee finally gets around to suing it, and then can settle with the patentee for any amount and simply pass the bill to the party without notice. The party with notice wins both ways, and has absolutely no risk.

Disregarding the patent laws simply because Sea Gull Lighting settled with the patentee for *post-notice* infringement not only ignores the policy behind 35 U.S.C. § 287(a), it establishes a dangerous policy of its own. At best, the Federal Circuit has rendered meaningless the phrase "rightful claim" contained in UCC 2-312(3) by enabling a party that has been sued because a component purchased from its supplier arguably infringes a patent to settle that suit no matter how frivolous or how weak (in terms of infringement, validity, or enforceability), and then recoup the total cost of settlement, including attorneys fees, from its supplier. While the Federal Circuit's fear that the need to determine if a claim is "rightful" would force parties to eschew settlement sounds plausible at first, the logical result of the Federal Circuit's decision is just the opposite: it would encourage unfounded or frivolous patent infringement suits.[10] In

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[10] The decision of the Federal Circuit entirely disrupts the carefully-crafted balance of incentives incorporated into the patent statute. One can readily imagine a product – such as a jet aircraft – which includes not one but hundreds or thousands of allegedly infringing components. Applying the principles of the Federal Circuit's decision to such a product will result

effect, the Federal Circuit's decision converts the warranty obligation of UCC § 2-312(3) into an insurance obligation, whereby the supplier is obligated to reimburse its customer against all claims, whether they be rightful, questionable, or frivolous.

The decision of the Federal Circuit encourages parties to commercial transactions to violate the duty of good faith required by UCC § 1-203 (1995) and conceal claims of potential liability, and would deprive parties without notice of the opportunity to act promptly and mitigate damages or seek an early resolution of a claim of infringement.

CONCLUSION

Some form of UCC § 2-312(3) has been enacted in virtually all states, and the issue presented by this case is likely to recur regularly. The guidance of this Court on the issue presented will be applicable generally and affect potentially millions of business transactions beyond the transactions specifically in issue in this case. The decision below sets bad policy, and is unlikely to be corrected unless done so by this Court.

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potentially in multiple exposures of the manufacturer to damages for articles which were not marked and as to which the manufacturer did not have actual notice. The Federal Circuit's decision throws major and unnecessary obstacles in the way of ordinary commercial transactions.

For all of these reasons, the petition for certiorari should be granted.

Respectfully submitted,

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APPENDIX

Craig H. COVER, Plaintiff,

v.

HYDRAMATIC PACKING CO., INC.,
Defendant/Countercross-Claimant/Appellant,

v.

SEA GULL LIGHTING, INC.,
Defendant/Cross-Claimant/Appellee.

No. 95-1382.

United States Court of Appeals,
Federal Circuit.

May 9, 1996.

Patentee sued alleged infringers. One alleged infringer filed cross-claim against other alleged infringer for indemnification. Patentee then settled with both defendants. The United States District Court for the Eastern District of Pennsylvania, Clarence C. Newcomer, J., 1995 WL 596779, ruled that cross-claim was precluded, and cross-claimant appealed. The Court of Appeals, Rich, Circuit Judge, held that patent code did not preempt Pennsylvania Uniform Commercial Code (UCC) provision governing warranty of merchant regularly dealing in goods.

Reversed and remanded.

Stanley B. Kita, Howson & Howson, Spring House, Pennsylvania, argued for defendant/countercross-claimant/appellant.

Gregory J. Lavorgna, Seidel, Gonda, Lavorgna & Monaco, P.C., Philadelphia, Pennsylvania, argued for defendant/cross-claimant/appellee.

Before RICH, MICHEL and PLAGER, Circuit Judges.

RICH, Circuit Judge.

Appellant Hydramatic Packing Co. (Hydramatic) appeals from the judgment of the United States District Court for the Eastern District of Pennsylvania concluding that Hydramatic's state law claim against Appellee Sea Gull Lighting, Inc. (Sea Gull) is precluded because the state statute is preempted by federal patent law. *Cover v. Hydramatic Packing Co. & Sea Gull Lighting, Inc.*, No. 93-6400, 1995 WL 596778 (E.D.Pa. May 30, 1995). We reverse and remand.

BACKGROUND

Plaintiff Craig H. Cover (Cover) commenced this case in late 1993 as a patent infringement action in which he sued Hydramatic for contributory infringement and Sea Gull for direct infringement of his U.S. Patent No. 4,605,992 ('992 patent). Hydramatic counterclaimed, seeking a declaratory judgment that the '992 patent was unenforceable due to inequitable conduct before the Patent and Trademark Office. Hydramatic also filed a cross-claim against Sea Gull for indemnification under § 2312(c) of the Uniform Commercial Code, which Pennsylvania has adopted.

The '992 patent describes a lighting fixture system having a batt of thermal insulation to protect the wiring from heat produced by a bulb. Hydramatic manufactures

insulation products based on the specifications of its customers. Sea Gull, a lighting fixture manufacturer, produced certain lighting fixtures that incorporated multi-layered batts of insulation manufactured to its specifications by Hydramatic. Cover's infringement action was premised on Sea Gull's manufacture of lighting fixtures containing the insulation parts obtained from and manufactured by Hydramatic.

On January 21, 1986, Cover entered into an exclusive license arrangement with Pacor to commercialize the '992 patent. Thereafter, Pacor began to supply multi-layered batts of insulation to Sea Gull, which designated these insulation units as part numbers 6254 and 6255. Of particular relevance is the fact that Pacor did not mark the insulation units with the number of the '992 patent in accordance with 35 U.S.C. § 287 (1988). Pacor sold these insulation units to Sea Gull until 1993.

In July of 1988, however, Sea Gull began furnishing Hydramatic with drawings and specifications to make Sea Gull part numbers 6254 and 6255. Hydramatic produced these parts in accordance with Sea Gull's specifications from July 1988 until late 1993. In 1989, Cover learned that Sea Gull was not obtaining all of its insulation units from Pacor, Cover's exclusive licensee. Rather, Cover discovered that Sea Gull was ordering insulation units from Hydramatic. As a result, Cover wrote a cease and desist letter to Hydramatic on June 5, 1989. Shortly thereafter, on October 9, 1989, Cover wrote a letter to Sea Gull, stating, in relevant part:

> To purchase these patented parts from a *known* violator [Hydramatic] of the patents is in itself a

> violation of the patents, and I trust that your company would not have intentionally done so.

The district court found that the October 9, 1989 letter to Sea Gull did not constitute notice of infringement. Therefore, according to the district court, since Pacor did not mark its insulation units sold to Sea Gull in accordance with 35 U.S.C. § 287(a), Sea Gull was not liable for damages, if at all, until after the complaint was filed by Cover on December 3, 1993.

Cover settled with Sea Gull before trial, and the case between them was dismissed with prejudice. Sea Gull agreed to pay Cover $75,000. Hydramatic also settled with Cover and agreed to pay him $175,000 in liquidated compensatory damages. Furthermore, Hydramatic and Cover stipulated that Hydramatic would not contest the validity, infringement, or enforceability of the '992 patent. As a result of these settlement agreements, the only claim remaining for trial was Hydramatic's cross-claim against Sea Gull for indemnification under § 2312(c).

With respect to Hydramatic's cross-claim, the district court stated that "[f]ederal law preempts state law where simultaneous compliance with state and federal law is impossible or would frustrate the purpose of federal law." On the assumption that Sea Gull was not liable for damages because it did not have notice of infringement until the complaint was filed in December of 1993,[1] the

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[1] Hydramatic would have us decide whether the October 9, 1989 letter from Cover to Sea Gull constituted notice. However, the issue of pre-emption is at the heart of this appeal, and since we find that the state law is not pre-empted, notification to Sea Gull is irrelevant.

district court held that "Hydramatic's state law claim seeking to impose liability on Sea Gull is preempted." Thus, according to the district court, compliance with § 2312(c) of the Pennsylvania commercial code would frustrate the purpose of § 287(a) of the federal patent code.

Hydramatic appealed to this court. We have jurisdiction over this appeal under 28 U.S.C. § 1295.

DISCUSSION

Under the Supremacy Clause, U.S. Const., art. VI, cl. 2, state laws are invalid if they "interfere with, or are contrary to the laws of [C]ongress, made in pursuance of the [C]onstitution." *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 6 L.Ed. 23 (1824); *Wisconsin Pub. Intervenor v. Mortier*, 501 U.S. 597, 604, 111 S.Ct. 2476, 2481, 115 L.Ed.2d 532 (1991). Inherent in our patent system is a "tension between the desire to freely exploit the full potential of our inventive resources and the need to create an incentive to deploy those resources" by granting the right to exclude to those who promote the progress of the useful arts. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152, 109 S.Ct. 971, 978, 103 L.Ed.2d 118 (1989). In other words, there are public costs associated with the right to exclude, and our patent system seeks to maintain an efficient balance between incentives to create and commercialize and public costs engendered by these incentives.[2] Where this

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[2] Public costs include (1) inflated prices, invariably absorbed by the consumer, which frequently accompany exclusive rights; and (2) overinvestment. *See* Richard A. Posner, Economic Analysis of the Law 36-37 (3d ed.1986).

balance between free exploitation of knowledge and the aforesaid incentives is clear, states may not intervene and provide protection to subject matter that is statutorily unprotected by our patent laws. *Id.* On the other hand, "states are free to regulate the use of . . . intellectual property in any manner not inconsistent with federal law." *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262, 99 S.Ct. 1096, 1099, 59 L.Ed.2d 296 (1979).

This case, one of first impression, requires us to assess the relationship between the federal patent code and Pennsylvania commercial law. Specifically, we are faced with the question of whether 35 U.S.C. § 287(a) of the patent code pre-empts § 2312(c) of the Uniform Commercial Code. Section 287(a) states, in relevant part:

> In the event of failure . . . to mark [the patented article], no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice.

The state law warranty provision, § 2312(c), is as follows:

> **Warranty of merchant regularly dealing in goods.** Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like *but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.*

13 Pa.C.S.A. § 2312(c) (1995) (emphasis added). The emphasized final provision controls here.

Although in determining whether a state statute is pre-empted, "there can be no one crystal clear distinctly marked formula," *Hines v. Davidowitz*, 312 U.S. 52, 67, 61 S.Ct. 399, 404, 85 L.Ed. 581 (1941), the Supreme Court has set forth three grounds for pre-emption: (1) *Explicit pre-emption*, whereby Congress explicitly provided for pre-emption of state law in the federal statute, *Jones v. Rath Packing Co.*, 430 U.S. 519, 525, 97 S.Ct. 1305, 1309, 51 L.Ed.2d 604 (1977); (2) *Field pre-emption*, wherein "the scheme of federal regulation is so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it," *Gade v. National Solid Wastes Management Ass'n*, 505 U.S. 88, 98, 112 S.Ct. 2374, 2383, 120 L.Ed.2d 73 (1992) (quoting *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230, 67 S.Ct. 1146, 1152, 91 L.Ed. 1447 (1947)); and (3) *Conflict pre-emption*, "where 'compliance with both federal and state regulations is a physical impossibility,' . . . or where state law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress,' " *Gade*, 505 U.S. at 98, 112 S.Ct. at 2383 (quoting *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43, 83 S.Ct. 1210, 1217, 10 L.Ed.2d 248 (1963), and *Hines*, 487 U.S. at 138).

Applying these tests to the case at hand, it is rather clear upon reading § 287(a) of the patent code that Congress did not explicitly pre-empt state commercial law. With respect to field pre-emption, Title 35 occupies the field of patent law, not commercial law between buyers and sellers. Therefore, field pre-emption does not apply here. We are left with conflict pre-emption. Thus, we

must ask ourselves whether there is such a direct conflict between § 287(a) of the patent code and § 2312(c) of Pennsylvania's commercial law that compliance with both the patent law and state law is a "physical impossibility," or whether the state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" in enacting § 287(a). *Gade*, 505 U.S. at 98, 112 S.Ct. at 2383. We hold that there is no conflict pre-emption in that Pennsylvania's commercial law neither renders compliance with the patent code a "physical impossibility" nor "stands as an obstacle to the accomplishment and execution" of the patent laws.

The patent law defines rights between the patentee and persons who wish to make, use, sell or offer for sale the patented invention. Inasmuch as Sea Gull and Hydramatic settled with the patentee, the patentee and the patent code are no longer in the picture. Sea Gull and Hydramatic remain, and their legal relationship is defined and governed by § 2312(c) of the UCC, which has nothing to do with the liability of Sea Gull and Hydramatic under the patent laws, which are simply irrelevant at this point.

Sea Gull asserts that for § 2312(c) to apply there has to be a "rightful claim" of infringement. Because the patentee, argues Sea Gull, did not mark his goods in accordance with § 287(a), there was no "rightful claim," thus saving Sea Gull from patent liability. As such, Pennsylvania's commercial code cannot impose patent liability where the patent law forbids it. This argument misses the point. By focusing on the phrase "rightful claim" in § 2312(c) and asking us to equate "rightful claim" with patent liability, Sea Gull, in essence, is making a statutory

construction argument, which has the effect of avoiding the pre-emption issue.

However, pre-emption is the issue, and the focus of our inquiry is on the interaction, if any, between § 287(a) and § 2312(c). Once the patentee left the picture, so did § 287(a). There is simply nothing on the face of § 287(a) that pertains to anyone but the infringer and the patentee. At issue, therefore, is the legal relationship between two contracting parties, and it is § 2312(c) which defines this relationship. On its face, § 2312(c) shifts all costs, including attorney fees, to the buyer who furnishes a seller with specifications that leads to a "rightful claim" of infringement. This state law, unlike the state laws in previous patent pre-emption cases, does not purport to provide exclusive property rights to "creations which would otherwise remain unprotected under federal law."[3] In short, we cannot discern any conflict between §§ 287(a) and 2312(c).

Furthermore, to adopt Sea Gull's "rightful claim" argument would not lead to judicious public policy inasmuch as parties would eschew settlement and be forced to go to trial to discern whether a "rightful claim" exists under federal patent law. We cannot lend our imprimatur to such a policy.

Therefore, we reverse the district court's judgment based on its holding that compliance with Pennsylvania's

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[3] *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156, 109 S.Ct. 971, 980, 103 L.Ed.2d 118 (1989). *See also, Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed.2d 669 (1964).

commercial law would frustrate the damages limitations set forth in 35 U.S.C. § 287. We remand for further proceedings consistent with our decision.

Each side shall bear its own costs.

REVERSED and *REMANDED.*

U.S. District Court
Eastern District of Pennsylvania

Cover v. Hydramatic Packing Co.

No. 93-6400

Decided May 26, 1995

JUDICIAL PRACTICE AND PROCEDURE

1. Procedure – Defenses – In general (§ 410.1801)

REMEDIES

Monetary – Damages – Patents – In general (§ 510.0507.01)

Cross-claim in which patent infringement defendant seeks to impose liability on co-defendant under state law for damages it paid to plaintiff to settle infringement suit is pre-empted by federal patent law, since federal law pre-empts state law if simultaneous compliance with state and federal law is impossible or would frustrate purpose of federal law, since co-defendant is not liable under patent law for damages accruing prior to filing of infringement complaint, in that allegedly infringed product was not marked with patent number and plaintiff did not provide co-defendant with actual notice of infringement prior to filing suit, and since cross-claim therefore seeks to impose liability on co-defendant where patent law would not.

Particular patents – Electrical – Lighting insulation

4,605,992, Cover, lighting fixture insulation, infringement defendant's cross-claim for indemnification held pre-empted by federal law.

Action by Craig H. Cover against Hydramatic Packing Co. and Sea Gull Lighting Inc., for patent infringement, in which Hydramatic Packing Co. cross-claims against Sea Gull Lighting Inc. under the Pennsylvania Commercial Code, 13 Pa.Cons.Stat.Ann. 2312, to recover damages paid to plaintiff in settlement of original claim, and in which Sea Gull Lighting Inc. cross-claims against Hydramatic Packing Co. Following bench trial on cross-claims, Hydramatic's cross-claim is held pre-empted by federal patent law, and judgment is entered for Hydramatic on Sea Gull's cross-claim.

Jeffrey L. Naftulin and Linda M. Shick, of Naftulin & Busico, Doylestown, Pa., for plaintiff.

Gregory J. Lavorgna, of Seidel, Gonda, Lavorgna & Monaco, Philadelphia, Pa., for defendant Sea Gull Lighting Inc.

Stanley B. Kita and William Bak, of Howson & Howson, Spring House, Pa.; Robert Scandone, Philadelphia, for defendant Hydramatic Packing Co. Inc.

Newcomer, S.J.

Plaintiff reached an amicable resolution of this case with both defendants. The defendants, however, maintained cross-claims against each other that were not resolved prior to trial. After a bench trial of this case limited to the cross-claims, and after considering the stipulated facts, the admitted exhibits and the arguments of counsel, the Court makes the following Findings of Fact and Conclusions of Law.

Findings of Fact

1. The Court adopts the facts set forth in the stipulation of the parties, attached hereto as Appendix A.

2. The products manufactured under license of the patentee in this case, Craig Cover, were not marked with the patent number.

Conclusions of Law

1. If a patented product is not marked as such, damages for patent infringement may only be recovered by a patentee for damages accruing after the patentee gave notice of the infringement to the infringer. 35 U.S.C. § 287(a). This requirement is strictly construed. *M-S Cash Drawer Corp. v. Block & Co., Inc.*, 26 U.S.P.Q.2d 1472, 1475, (C.D. Cal. 1992).

2. A party's knowledge of the existence of a patent, even when combined with a belief that the patentee considers the party to be an infringer, is irrelevant to the issue of damages under § 287(a). Express notice from the patentee is the only means of engendering liability for damages by an infringer. *International Nickel Co. v. Ford Motor Co.*, 166 F. Supp. 551, 567 [119 USPQ 72] (S.D.N.Y. 1958).

3. Notice is an affirmative act, and must be done by the patentee. *Dunlap v. Schofield*, 152 U.S. 244, 247-48 (1894).

4. The proper focus when determining the adequacy of notice is on the actions of the patentee, not the knowledge or intent of the infringer. *Armstead Industries v.*

Buckeye Steel Castings, 24 F.3d 178, 187 [30 USPQ2d 1462] (Fed. Cir. 1994).

5. Actual notice of infringement requires an affirmative communication of a specific allegation of infringement by a specific accused device. *Id.*

6. Plaintiff Cover never provided defendant Sea Gull Lighting with actual notice of infringement, and thus Sea Gull Lighting had no liability under patent law for damages accruing prior to the filing of the instant Complaint.

7. Defendant Hydramatic Packing Co.'s cross-claim seeks to impose liability, under the Pennsylvania Commercial Code, 13 Pa. C.S.A. § 2312, on Sea Gull Lighting for the damages paid to Cover by Hydramatic in settlement.

8. Federal law preempts state law where simultaneous compliance with state and federal law is impossible or would frustrate the purpose of federal law. *Trojan Technologies, Inc. v. Pennsylvania*, 916 F.2d 903, 906 (3d Cir. 1990).

9. Hydramatic's state law claim seeking to impose liability on Sea Gull is preempted by federal patent law which imposes no liability on Sea Gull in this case. *McNeilab, Inc. v. Scandipharm, Inc.*, 1993 WL 212424, *4 (E.D. Pa. 1993); *Motorola, Inc. v. Varo, Inc.*, 656 F. Supp. 716, 717-18 [1 USPQ2d 1575] (N.D. Tex. 1986).

10. No valid legal theory supports Sea Gull's cross-claim against Hydramatic.

An appropriate Order follows.

APPENDIX A
STIPULATION

Subject to the approval of the Court, Defendant Hydramatic Packing, Co., Inc. (Hydramatic), and Defendant Sea Gull Lighting, Inc. (Sea Gull), through their respective counsel, and for purposes of this Action only, hereby stipulate and agree as follows:

1. Craig H. Cover is the owner of U.S. Patent No. 4,544,992 and 4,605,992 which were granted on October 1, 1985 and August 12, 1986, respectively (Exhibits HPC-6 and HPC-7, respectively).

2. Craig H. Cover sued Hydramatic for contributory infringement and Sea Gull for infringement of U.S. Patent No. 4,605,992 in a Complaint filed in December 1993 (Exhibit HPC-28).

3. Hydramatic is a Pennsylvania corporation having its principal place of business at 2992 Frank Road, Bethayres, Pennsylvania, 19006.

4. Sea Gull is a Delaware corporation having a place of business at 25th and Wharton Streets, Philadelphia, Pennsylvania, 19145.

5. A copy of the Complaint and Summons was received by Hydramatic on December 20, 1993 and Hydramatic notified Sea Gull within two days of receipt of service of the Complaint.

6. A copy of the Complaint and Summons was received by Sea Gull on a date at least as early as January 26, 1994.

7. Sea Gull had actual knowledge of the filing of the Complaint at a date earlier than receipt of the Complaint and Summons when informed by its attorneys of publication of the Cover v. Hydramatic and Sea Gull litigation (Litigation) in The Legal Intelligencer.

8. On or about January 25, 1994, Michael Hirsch, Vice President of Sea Gull, had a telephone discussion with Mark McKenna of Hydramatic regarding the Litigation in which Michael Hirsch took the position that the Litigation was Hydramatic's responsibility (Exhibit HPC-30).

9. On or about February 1, 1994, counsel for Sea Gull received a letter from Hydramatic's counsel asserting that the Litigation was Sea Gull's responsibility, citing Title 13, Pennsylvania Uniform Commercial Code § 2312(c) (Exhibit HPC-31).

10. On February 3, 1994, Sea Gull served its Answer to the Complaint in the Litigation and asserted a Cross-Claim against Hydramatic for indemnification.

11. On February 9, 1994, Hydramatic served its Answer to Sea Gull's Cross-Claim and asserted a Cross-Claim against Sea Gull for indemnification under Title 13, Pennsylvania Uniform Commercial Code, citing § 1213(c) and § 2607(f). Exhibit HPC-32.

12. On February 24, 1994, Sea Gull served its answer to Hydramatic's Cross-Claim (Exhibit HPC-33).

13. On June 30, 1994, Sea Gull entered into a Settlement Agreement with Cover over the Litigation. The Settlement Agreement provided for a dismissal of the

Litigation against only Sea Gull for a maximum payment of $75,000, payable in a stated manner (Exhibit HPC-35).

14. Hydramatic was not given advance notice of the terms of settlement, and the Settlement Agreement was not disclosed to Hydramatic's counsel until the Court ordered it produced as a result of Hydramatic's motion to compel production which was opposed by Sea Gull.

15. Sea Gull manufactures lighting fixtures.

16. Hydramatic manufactures insulation to customer specifications.

17. Hydramatic has been a seller of insulation parts to Sea Gull, and Sea Gull has been a buyer of insulation parts from Hydramatic, since approximately 1975.

18. Hydramatic and Sea Gull are both merchants within the meaning of the Pennsylvania Uniform Commercial Code.

19. Sea Gull parts designated as part numbers 6254 and 6255 were designed by Sea Gull.

20. The specifications for Sea Gull part numbers 6254 and 6255 are contained in Sea Gull drawings dated August 11, 1987 and September 18, 1986, respectively, drawn by Snehal Shah, a Sea Gull engineer (Exhibits HPC-18 and HPC-19, respectively).

21. Sometime before July, 1988, Sea Gull supplied the drawing for part number 62[illegible] to Hydramatic for the purpose of obtaining a price quotation on the part.

22. In July 1988, Sea Gull ordered and Hydramatic sold and delivered parts designated by Sea Gull part number 6254.

23. Hydramatic manufactured parts designated by Sea Gull part number 6254 to Seal [sic] Gull's specifications.

24. Except for rejects due to manufacturing defects, Sea Gull accepted delivery of parts designated by Sea Gull part number 6254 from July 1988 to late 1993.

25. Over the period from July 1988 to late 1993, Sea Gull accepted delivery of approximately 2,000,000 units of Sea Gull part no. 6254.

26. In August 1990, Sea Gull ordered and Hydramatic sold and delivered parts designated by Sea Gull part number 6255.

27. Hydramatic manufactured Sea Gull part number 6255 to Seal Gull's specifications.

28. Except for rejects due to manufacturing defects, Sea Gull accepted delivery of parts designated by Sea Gull part number 6255 from August 1990 to late 1993.

29. Over the period from August 1990 to late 1993, Sea Gull accepted delivery of approximately 1,000,000 units of Sea Gull part no. 6255.

30. Sea Gull sold approximately 3,000,000 lighting fixtures having Sea Gull part numbers 6254 and 6255 manufactured by Hydramatic.

31. Sea Gull's gross revenues for the fixtures sold with part numbers 6254 and 6255 amounted to approximately $12,000,000.

32. In the Litigation against Hydramatic and Sea Gull, Sea Gull settled with Cover for $75,000. Hydramatic

settled with Cover for $175,000. $75,000 is a reasonable settlement for Sea Gull. $175,000 is a reasonable settlement for Hydramatic.

33. In the Philadelphia region, $180/per hour is a reasonable hourly rate for a registered patent attorney having over 25 years of experience which includes litigation.

34. Both Sea Gull and Hydramatic agree that $100,000 is a reasonable amount of attorney's fees for each to have incurred in this action. A summary of invoices totalling $100,387 paid by Hydramatic to Howson and Howson to defend the patent infringement aspects of this Action is attached as Exhibit HPC-36.

Hydramatic Packing Co., Inc. (Hydramatic) stipulates to the following facts, subject to the court's determination that they are relevant to any issues remaining in the case.

35. In commercializing both patents, Cover entered into an exclusive licensing agreement on January 21, 1986 with a company called Pacor. Pacor was granted exclusive rights to manufacture batts of thermal insulation for use in lighting fixtures. The agreement included both of his patents and know-how. (Exhibits HPC-8, 8A, 8B, and 8C) Pacor supplied insulation to Sea Gull for installation in its fixtures.

36. Defendant Hydramatic is a job shop. As such, it manufactures insulation products for a variety of industries to the specifications of its customers. Hydramatic is a family owned business that has been in existence for fifty years. It employees [sic] approximately fifty people.

37. Hydramatic salesmen periodically called on Sea Gull to solicit business. Over the years, Hydramatic produced dozens of parts for Sea Gull. Exhibit HPC-23 is price list in effect on July 5, 1989 for Sea Gull parts.

38. In the normal course of business a Hydramatic salesman would call on various lighting manufacturers, Sea Gull being one, and ask if there was any work that could be produced.

39. Hydramatic routinely received drawings from manufacturers in order to quote prices.

40. During the time frame relevant to the present case, drawings were received by Hydramatic from lighting fixture manufacturers including Progress Lighting Company and from Sea Gull for possible quotes.

41. The Progress Lighting Company's drawing (Exhibit HPC-16), included a reference to "MIT Shields". The Progress Lighting part involved multiple layers of metallized polymer "MIT Shields" or aluminum and fiberglass. Hydramatic had never made such a product and requested a sample from Progress Lighting. Upon reviewing the sample (Exhibit HPC-17) and the drawing, Hydramatic contacted Progress Lighting and was told this was a patented product, and Hydramatic refused to make the part for Progress Lighting or for anyone else.

42. Sea Gull drawings for part nos. 6254 and 6255 had no indication of a possible patent and were dissimilar to the product requested to be produced by Hydramatic for Progress Lighting. Additionally, in the 1970's, Hydramatic had manufactured for The Budd Company of Philadelphia, a laminated insulation batt composed of

metal foil and fiberglass. The insulation batt was used in railroad cars. It was produced by laminating one layer of aluminum foil between two layers of fiberglass. The drawings provided by Sea Gull seemed quite similar to the product Hydramatic had made for The Budd Company; consequently they raised no question by Hydramatic as to a possible patent problem. (See Exhibit HPC-20).

43. Cover worked along with Sea Gull as early as 1983 to develop insulation that would enable Sea Gull to pass U.L. tests. Sea Gull provided fixtures to Cover for use in his testing process for developing his invention. (Exhibit HPC-1). As early as 1983, Cover had discussions with Michael Hirsch, and he later met with Snehal Shah from the research department of Sea Gull. Mr. Shah is the individual who made the drawings for Sea Gull part nos. 6254 and 6255 provided to Hydramatic.

44. Between 1986 and 1993, employees of the purchasing department of Sea Gull inquired of Stan Zimorowicz, a salesman for Pacor, the company with the licensing agreement with Cover, why Pacor's pricing for multilayer insulation products was higher than competitors' pricing for similar products. Pacor explained that the difference was because of royalties that were involved.

45. At the same time that Sea Gull provided drawings to Hydramatic to produce part nos. 6254 and 6255, Sea Gull provided drawings and requested All Fabrications, Inc. (All Fab) to produce the same part numbers.

46. Cover directed his attorney, Gregory Gore, to send a letter to All Fab; that letter is dated December 11,

1987; an earlier letter from Cover to All Fab is dated November 12, 1987. (Exhibits 12B, and 12A, respectively).

47. In December 1987, All Fab notified Sea Gull that they would not make part nos. 6254 and 6255 because of a "patent situation". The notation "patent situation" appears on Sea Gull requisition documents adjacent requests for quotation from All Fab. (Exhibit HPC-22). Sea Gull was aware of the Cover patent in suit at least from December 1987.

48. All of the information in Stipulations 43, 44, 45, and 47 was in Sea Gull's possession prior to Hydramatic's ever producing one Sea Gull part number involved in this case.

49. Both Hydramatic and Sea Gull received letters from Cover dated June 12, 1986. Exhibits HPC-10 and HPC-15A, respectively.

50. Hydramatic received letters on January 23, 1987 and November 12, 1987 from Cover. (Exhibits HPC-15B and 15C, respectively). They are types of letters received by Hydramatic in the ordinary course of business. They are simply announcement letters promoting new products and patents, and soliciting licensing. Hydramatic receives these types of letters frequently. These were not notices of infringement. Hydramatic was not interested in licensing arrangements when it received these letters. Thus, it did not respond to these letters.

51. On June 5, 1989, Hydramatic received a letter (Exhibit HPC-15D), asking it to cease and desist from producing "multi-layered laminated insulation material". Before it received the letter of June 5, 1989, Hydramatic

had determined the Cover patent in suit pertained to the part illustrated and described in Progress Lighting Drawing (Exhibit HPC-16), and the sample obtained (Exhibit HPC-17). Consequently, Hydramatic believed that the letter (Exhibit HPC-15D) was not intended for it, and it did not respond.

52. Hydramatic then received another letter from Cover dated October 9, 1989, (Exhibit HPC-15E). In that letter, Hydramatic was told to stop producing part no. 6260. Hydramatic never produced a part number 6260. This buttressed Hydramatic's original belief, from the earlier letter of June 5, 1989, that both of the letters were a mistake on the part of Mr. Cover, since Hydramatic was not producing the stated part number. Since there was no doubt in Hydramatic's mind that they were not producing a part that they believed to be covered by the Cover patent in suit, they did not respond to this letter.

53. Hydramatic did not notify Sea Gull of the June 5, 1989, letter to Hydramatic from Gregory J. Gore, Esquire (Exhibit HPC-15D) or its contents until after the Complaint was filed.

54. Hydramatic did not notify Sea Gull Lighting of the October 9, 1989, letter to Hydramatic from Craig Cover (Exhibit HPC-15E or its contents until after the Complaint was filed.

55. Sea Gull was sent a letter dated October 9, 1989 from Craig Cover (Exhibit HPC-11). Cover's purpose in writing the letter was to get Sea Gull to stop purchasing from Hydramatic and go back to Pacor. (Exhibit HPC-37). For purposes of this Stipulation, Sea Gull does not contest that it received the letter of October 9, 1989. Sea Gull did

not notify Hydramatic of the October 9, 1989 letter to Sea Gull from Craig Cover or its contents until after the Complaint was filed.

56. Insulation products sold by Pacor were not marked with the number of the Cover patent in suit.

57. Glen Fortunato continued to call on Sea Gull Lighting and solicit other business for multilayer insulation products after June 5, 1989.

58. Hydramatic did not at any time obtain the express or implied permission of Cover to fabricate, produce, use, make, and/or sell Part No. 6254 and/or Part No. 6255.

59. Hydramatic did not seek or receive an opinion from counsel regarding their possible infringement of Cover's patent no. 4,605,992 at any time prior to manufacturing Sea Gull part nos. 6254 and 6255.

60. Hydramatic did not make an investigation as to their possible infringement of Cover's patent no. 4,605,992 prior to manufacturing Sea Gull part nos. 6254 and 6255.

61. Hydramatic did receive a letter from Craig H. Cover, addressed to Joseph E. McKenna at Hydramatic Packing Co., Inc. by certified mail, on November 12, 1987. Said letter was received and signed for by Joseph E. McKenna on November 17, 1987.

62. The letter dated November 12, 1987 advised Hydramatic that Cover was the owner of U.S. Patent No. 4,605,992 pertaining to insulation for lighting fixtures.

63. Hydramatic did not respond to Cover's letter dated November 12, 1987.

64. Hydramatic admits that Cover's attorney, Gregory J. Gore, Esquire, forwarded to them on June 5, 1989, by certified mail, a notice regarding Patent No. 4,605,992.

65. The June 5, 1989 Patent Notice regarding Patent No. 4,605,992 forwarded by Plaintiff's counsel, Gregory J. Gore, Esquire, was received and signed for by Joseph E. McKenna on June 6, 1989.

66. Hydramatic admits that said June 5, 1989 correspondence from Gregory J. Gore, Esquire to them advised them of their possible willful infringement of Plaintiff's Patent No. 4,605,992 and/or Patent No. 4,544,992.

67. Hydramatic admits that they did not respond to Gregory J. Gore Esquire's June 5, 1989 correspondence to them.

68. Hydramatic admits that Cover forwarded to them, on October 9, 1989, correspondence regarding Patents 4,605,992 and 4,544,992.

69. Hydramatic admits that they received the October 9, 1989 correspondence from Craig Cover to them.

70. Hydramatic admits that they did not respond in any way to Cover's October 9, 1989 correspondence.

Approved this 16th day of May, 1995.

ORDER

AND NOW, this 24th day of May, 1995, after a bench trial of this case limited to the cross-claims, and after

considering the stipulated facts, the admitted exhibits and the arguments of counsel, and consistent with the foregoing Findings of Fact and Conclusions of Law, it is hereby ORDERED that judgment is ENTERED in favor of Sea Gull Lighting and against Hydramatic Packing Company on Hydramatic Packing Company's cross-claim, and judgment is ENTERED in favor of Hydramatic Packing Company and against Sea Gull Lighting on Sea Gull Lighting's cross-claim.

AND IT IS SO ORDERED.

Supreme Court, U.S.
FILED
AUG 23 1996
CLERK

No. 96-164

In The

Supreme Court of the United States

October Term, 1995

SEA GULL LIGHTING, INC.,

Petitioner,

v.

HYDRAMATIC PACKING CO., INC.,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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Summary of Argument

Sea Gull's petition skillfully recasts the facts to create the illusion that it is innocent of any wrongdoing in this case, and that this case is of sufficient importance to warrant consideration by this court. The essential fact is that but for Sea Gull's direct infringement of the Cover patent, by making, using, and selling the lighting fixture and insulation combination claimed in that patent, Hydramatic would not have had any liability as a contributory infringer for making Sea Gull insulation parts to Sea Gull's specifications. And, if Sea Gull had done what was right, and what the UCC required, i.e., defended Hydramatic at the start of the patent infringement case, Sea Gull would not be before the bar of this court seeking to escape responsibility for the situation it created. As will be discussed, this case of first impression was properly decided by the Federal Circuit and does not involve an important federal question that needs to be settled.

Hydramatic's Counter-Statement of the Case

The parties stipulated to the facts in the district court. Those facts are incorporated in the district court's opinion set forth in Sea Gull's petition beginning at A15. From those stipulated facts, Hydramatic presents its statement of the case.

Beginning as early as 1983, Cover, the plaintiff-patentee in the case below, worked with Sea Gull to develop multi-layered laminated foil and fiberglass insulation that would enable Sea Gull's lighting fixtures to

pass Underwriter Laboratories' (UL) tests [A21,S43]. To this end, Sea Gull provided fixtures to Cover for testing [A21,S43]. Cover had discussions with Michael Hirsch, Vice President of Sea Gull, and he met with Sea Gull's engineer Snehal Shaw [A21,S43].

On January 21, 1986, Cover entered into an exclusive license arrangement with a company called Pacor to commercialize the Cover Patent in suit [A19,S35]. Pacor obtained exclusive rights to manufacture multi-layer laminated batts of thermal insulation for use in lighting fixtures [A19,S35]. Thereafter, Pacor began to supply multi-layered batts of insulation to Sea Gull for installation in its fixtures. Pacor did not mark the insulation with the number of the Cover Patent [A24,S56]. Pacor's sale of such insulation to Sea Gull continued until late 1993 when the insulation was no longer required.

Sea Gull has been a customer of Hydramatic for a long time. Since at least 1975, Hydramatic salesmen routinely called on Sea Gull to solicit business [A17,S17]. As a result of such solicitations, Hydramatic would be provided with Sea Gull drawings and specifications in order to quote prices for particular parts [A20;S39-40].

Sea Gull is a relatively large manufacturer of lighting fixtures [A17,S15]. Sea Gull designed insulation batts identified as Sea Gull part nos. 6254 and 6255, and one went into each lighting fixture Sea Gull sold [A17; S19,20]. In 1986, Sea Gull supplied Hydramatic with drawings for Sea Gull part no. 6254; however, Sea Gull did not begin to order that part number from Hydramatic until July 1988 [A17;S21,22]. Rather, these and similar

insulation parts were purchased by Sea Gull from Pacor during this time frame.

In 1987, Sea Gull had sought to obtain Sea Gull part no. 6254 from All Fabrications, Inc. (All Fab), but All Fab refused to produce the part for Sea Gull because of a "patent problem" [A21,22;S45-47]. The reason for All Fab's refusal was that Cover and his attorney had written letters to All Fab advising them of his patent and the possibility of infringement.

Armed with this knowledge of a patent problem, but without informing Hydramatic, Sea Gull began to order Sea Gull part no. 6254 from Hydramatic in July 1988 [A18,S22]. Hydramatic had produced a laminated insulation batt composed of metal foil and fiberglass in the 1970's [A20,S42]. The drawings provided by Sea Gull for its parts seemed quite similar to this previously made product [A21,S42]. Consequently, the Sea Gull drawings, which did not include any indication of a possible patent, raised no question by Hydramatic as to a possible patent problem [A21,S42]. Hydramatic produced Sea Gull part no. 6254 from that time until late 1993, when Sea Gull stopped buying the part [A18,S24]. Almost 2,000,000 Sea Gull part no. 6254 items were sold [A18,S25]. In addition, almost 1,000,000 Sea Gull part no. 6255 items were sold over a slightly shorter time frame [A18,S29].

In the relevant time frame, Sea Gull sold approximately 3,000,000 lighting fixtures containing such batts [A18,S30]. At an average price of at least $4.00 per fixture, Sea Gull's total fixture sales amounted to at least $12,000,000 [A18,S31]. In contrast, Hydramatic's total sales of part nos. 6254 and 6255 to Sea Gull over the

relevant time frame amounted to $690,000 with an approximate profit to Hydramatic of $50,000.

In 1989, Cover learned that Sea Gull was not obtaining all of its requirements for multi-layered insulation parts from Pacor, Cover's exclusive licensee. In an effort to force Sea Gull to stop buying from an unauthorized source (Hydramatic), Cover wrote a letter to Sea Gull [A23-24;S55]. This letter was noted by the Federal Circuit in its opinion, the portion quoted stating [A3,4]:

> "To purchase these patented parts from a *known* violator [Hydramatic] of the patents is in itself a violation of the patents, and I trust that your company would not have intentionally done so."

At about the same time Cover wrote to Sea Gull, he also wrote letters to Hydramatic. Hydramatic did not respond to those letters because it believed that they were mistakes on the part of Cover [A22,23;S51,52]. Hydramatic was not making the part number referenced in Cover's June 9 letter, and Cover's attorney's October 9, 1989 letter simply referred to a multi-layer laminated insulation product [A22,23;S51,52]. Hydramatic had made such a product many years before for The Budd Company in Philadelphia [A21,22;S42].

Hydramatic heard nothing more about the matter from Cover until the Cover Patent again surfaced in 1993 when Sea Gull discussed with Hydramatic the manufacture of another Sea Gull part number: 6260. For the first time, Sea Gull raised with one of Hydramatic's salesman the existence of a possible patent problem regarding this particular part number.

In December 1993 Cover filed a complaint for patent infringement against both Hydramatic and Sea Gull [A15,S2]. In essence, Cover's action against them was based upon direct infringement by Sea Gull for making, using, and selling lighting fixtures which incorporated insulation parts obtained from Hydramatic, and contributory infringement by Hydramatic as a result of having produced to Sea Gull's specifications the insulation parts Sea Gull used in its fixtures.

In January 1994, Sea Gull took the position that the litigation was Hydramatic's own responsibility [A16,S8]. In February 1994, Hydramatic, through its counsel, outlined Hydramatic's right to indemnification citing the relevant section of the UCC [A16,S9].

Hydramatic thereafter filed a cross-claim against Sea Gull seeking indemnification under UCC §2-312(3) [A16,S11]. The amount sought included $175,000 incurred in settlement of the patent damages claim brought by Cover, and $100,000 in attorneys' fees to defend the patent infringement case [A18,19;S32-34]. Sea Gull settled with Cover at an early date for $75,000 [A19,S32]. This left as the only issues remaining for trial Hydramatic's UCC cross-claim against Sea Gull, and Sea Gull's cross-claim against Hydramatic.

The district court ruled that Hydramatic's entire UCC cross-claim (including the $100,000 for attorneys' fees) was preempted by federal patent law. As to Sea Gull's cross-claim, the district court stated that "No valid theory supports Sea Gull's cross-claim against Hydramatic" [A14,FF10].

On appeal, the Federal Circuit reversed and remanded the case finding no federal preemption. Sea Gull has obtained a stay of further proceedings in the district court pending this Court's decision on Sea Gull's petition.

Argument

Sea Gull knew all about Cover and his patent from the first moment its engineer designed Sea Gull part nos. 6254 and 6255 for use in Sea Gull lighting fixtures, but by continuing to argue lack of notice and absence of liability for patent infringement damages, and hence federal preemption of UCC §2-312(3), Sea Gull seeks to avoid all responsibility for the infringement situation it created. Yet, the factual situation in this case is precisely that contemplated by the UCC. It provides the only recourse that a parts' supplier has to protect itself against liability for patent infringement caused by the parts' designer, and the Federal Circuit properly analyzed this court's precedents and found no federal preemption.

This case does not present an important federal question that warrants the court's attention.

The petition does not point to any conflict among the circuits or to any conflict with decisions of this court. Rather, this is simply a case of first impression involving a unique set of facts. The Federal Circuit properly analyzed the federal preemption issue in light of this court's precedents, and there are no compelling reasons for this court to review the Federal Circuit's decision.

The Federal Circuit specifically considered this court's precedent with respect to federal preemption, namely: (1) Explicit preemption; (2) Field preemption; and (3) Conflict preemption, and found that none applied to the particular facts of this case.

Sea Gull argues that the Federal Circuit's views on the federal preemption issue raised in this case are wrong; that they would be followed by other Federal Circuit panels; and that since the Federal Circuit is the court of last resort in patent cases, "there will never be a conflict in the circuits". The argument is fallacious.

The Federal Circuit is not the only appellate court in which federal preemption and UCC indemnification issues such as presented in this case could arise in the future. For instance, the issue could again arise in a non-patent case in which suit is brought against only a parts' supplier that, after making appropriate indemnification demands against the parts' designer, settles the case and thereafter, in a separate case, sues for indemnification under UCC §2-312(3) in a federal district court (assuming diversity and amount in controversy), or sues in a state court. In this scenario, there is the possibility of a conflict with the Federal Circuit should other federal appellate courts, or state appellate courts, not follow the Federal Circuit's holding on the preemption issue. Thus, contrary to Sea Gull's assertion, the Federal Circuit's ruling in the present case is not necessarily the final word on the federal preemption issue even in an identical factual setting that is simply litigated in a procedurally different manner.

Finally, Sea Gull argues that this case is important because of its impact on "potentially millions of business transactions specifically in issue in this case". In actuality, this case presents a set of facts which make it unique. The facts of this case do not appear ever to have arisen during the 30 plus years in which UCC §2-312(3) has been in effect in nearly every state, and they may never occur again. Moreover, it is more likely than not, that this case could be distinguished as precedent from any subsequent case. The case was correctly decided by the Federal Circuit, and that decision should not be disturbed because it is just, and because there is no pressing need for this Court to consider it.

Conclusion

The petition does not present an important federal issue that needs to be decided by this court. This is simply a case of first impression involving a unique factual situation that arose in a unique procedural setting. The writ of certiorari should be denied.

Respectfully submitted,

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